



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

HEART ACADEMY

**Financial Statements
June 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

August 11, 2006

To the Board of Directors
HEART Academy

We have audited the accompanying financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of HEART Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the HEART Academy as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
HEART Academy
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2006, on our consideration of HEART Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Proenzano, Schauman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of HEART Academy's financial results for the fiscal year ended June 30, 2006. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in the change in net assets, which can either, increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Agency and Trust Accounts

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

Condensed Financial Statements
Analysis of Overall Financial Position and Results of Operations

The table below provides a summary of the Academy's net assets as of June 30, 2006 and 2005.

Assets	2006	2005
Current and other assets	\$ 559,565	\$ 674,505
Capital assets -net of accumulated depreciation	148,670	245,414
Total assets	<u>708,235</u>	<u>919,919</u>
Liabilities		
Current liabilities	227,156	348,938
Long-term liabilities	358,333	391,666
Total liabilities	<u>585,489</u>	<u>740,604</u>
Net assets		
Invested in capital assets-net of related debt	(242,996)	(179,585)
Unrestricted	365,742	358,900
Total Net Assets	<u>\$ 122,746</u>	<u>\$ 179,315</u>

The Academy's enrollment declined as a result of 10th, 11th, and 12th grade students transferring from the Academy due to academic and relocation reasons. In addition, rent was increased by the same percentage as the per-pupil-funding gain leading to additional increased expenses. Total assets decreased from the previous year as a result of higher accumulated depreciation. Total liabilities decreased in large part to payment on both the St. John Health and Comerica loans from unrestricted funds. As a result of the above, total net assets decreased.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Overall Financial Position and Results of Operations (cont.)

The Academy's results of operations for the years ended June 30, 2006 and 2005 are reported below.

Revenue	2006	2005
Program revenue		
Grants and contributions	\$ 243,488	\$ 272,628
Charges for services	4,713	1,567
General revenue		
State foundation allowance	1,737,824	1,737,824
Other	5,842	5,842
Total revenue	<u>1,991,867</u>	<u>2,017,861</u>
Function/Program expenses		
Instruction	929,881	926,517
Support services	972,941	918,229
Food service	26,560	7,654
Interest on long-term debt	22,310	24,123
Depreciation (unallocated)	96,744	96,471
Total expenses	<u>2,048,436</u>	<u>1,972,994</u>
Increase (decrease) in Net Assets	<u>\$ (56,569)</u>	<u>\$ 44,867</u>

Total revenue decreased from 2005 by \$25,994 as a result of the decrease in enrollment and the decreased amount of grants and contributions. Total expense increased by \$75,442 as a direct result of increased support service expense and the loss from the food service program. The decreased revenue and increased expenses were not able to be offset resulting in an overall decrease of \$56,569 in net assets from 2005.

Budget Highlights

HEART Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. As a matter of practice the HEART Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2006, the Academy amended the budget on January 17, 2006 and June 20, 2006. A comparison showing the Academy's original budget, final amended budget and actual results for revenue and expenditures is provided below.

	Original	Final	Variance	Actual	Variance
Total Revenue	\$ 2,043,038	\$ 1,965,450	-3.80%	\$ 1,971,808	0.32%
Total Expenditures	2,016,938	2,001,554	-0.76%	1,990,965	-0.53%
Excess Revenue/Expenditures	26,100	(36,104)	-238.33%	(19,157)	-46.94%

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Budget Highlights (cont.)

Changes to the original general fund budget were as follows:

- When establishing the 2005/2006 revenue budget only estimates could be used, as there were a number of State and Federal budget factors that had not yet been determined. These factors included the uncertainty of per pupil funding, reductions or possible elimination of specific categoricals and grants. State funding was lower due to decreased enrollment (unrestricted, vocational and at-risk count from previous school year). The final budget for federal revenue was increased due to the Academy awarded additional federal grant appropriations after the original budget was established.
- Expenditures decreased from the original to final budget to reflect an adjustment in purchase service cost for instructional staff and other instructional cost reductions due to a decrease in state revenue.

Final vs. Actual Budget

- Management believes that the final budget to actual results variances were not significant.

Academy's Funds

General Fund

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2006, the fund decreased by \$19,157. The reason for the decrease was basically a decrease in student enrollment, while the Academy attempted to maintain programs.

Food Service Fund

The Academy continued a lunch program for the full academic year. The purpose of the program was to provide lunch for those students who met federal requirements for free or reduced lunch and others who did not bring lunch with them. Unfortunately students continued not to participate in the program. Even with a la carte beverages being sold, funds were not sufficient to break even. Therefore, the program lost \$6,501.

HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Debt Service Fund

The Academy's debt service fund is used to pay the principal and interest on existing loans from Comerica Bank and St. John Health. These loans were secured in the previous school year and were used to pay for building improvements to meet State building code requirements and to make other leasehold improvements. In addition, a portion of the St. John Health loan was used to assist with general fund expenditures.

<u>Long-Term Debt</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Renovation Loan - Comerica	\$ 391,666	\$ 424,999
St. John Note	-	32,500
Total	<u>\$ 391,666</u>	<u>\$ 457,499</u>

<u>Debt Reduction</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Renovation Loan - Comerica	\$ 33,333	\$ 33,334
St. John Note	32,500	65,000
Total	<u>\$ 65,833</u>	<u>\$ 98,334</u>

Capital Assets

As of June 30, 2006 and 2005, the Academy has \$148,670 in capital assets including leasehold improvements, and furniture and equipment, less depreciation.

	<u>2006</u>	<u>2005</u>
Leasehold improvements	\$ 463,031	\$ 463,031
Equipment and furniture	57,697	57,697
Total Capital Assets	520,728	520,728
Less accumulated depreciation	(372,058)	(275,314)
Net Capital assets	<u>\$ 148,670</u>	<u>\$ 245,414</u>

Leasehold improvements have been depreciated over the life of this lease resulting in a higher than average depreciation expense and lower net capital assets.

Conditions Affecting Next Year's Budget

The economy in the State of Michigan continues to be slowing. While the State is considering an increase in per pupil funding, at the time of the 2007 budget approval a final decision had not been approved. In addition the status of both 31a At-Risk and Vocational Education funding is not known. All of these factors create revenue risk and make budget planning and management difficult. If the per pupil funding does increase, there is an obligation in the lease agreement that will have the monthly rent increase by the same percentage as the increase

**HEART ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Conditions Affecting Next Year's Budget (continued)

in funding. Therefore, part of the increased revenue will be offset by the added expense. Enrollment numbers for the 11th and 12th grades may continue to decline, as students are not willing to meet the Academy's academic requirements for graduation and choose to transfer to a school with lower academic standards. This will eventually change as the mandated Michigan graduation requirements are implemented by all public schools. Meeting increased expense requirements will require non-traditional thinking in relation to providing support for academic services and focused attention to fund raising initiatives.

Requests for Information

This report is designed to provide our stakeholders and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

BASIC FINANCIAL STATEMENTS

HEART Academy
Academy Wide
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 170,725
Receivables	333,162
Prepaid expenses	55,678
Capital assets less accumulated depreciation	148,670
Total Assets	<u>708,235</u>
LIABILITIES	
Current liabilities	
Accounts payable	10,075
Accrued liabilities	9,123
Due to management company	174,625
Renovation Loan	33,333
Long-term liabilities	
Renovation Loan	358,333
Total Liabilities	<u>585,489</u>
NET ASSETS	
Invested in capital assets net of related debt	(242,996)
Unrestricted	365,742
Total Net Assets	<u>\$ 122,746</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Academy Wide
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 929,881	\$ -	\$ 210,782	\$ (719,099)
Support services	972,941	-	17,360	(955,581)
Food service	26,560	4,713	15,346	(6,501)
Interest on long-term debt	22,310	-	-	(22,310)
Depreciation (unallocated)	96,744	-	-	(96,744)
Totals	<u>\$ 2,048,436</u>	<u>\$ 4,713</u>	<u>\$ 243,488</u>	<u>(1,800,235)</u>
General revenues:				
State aid - unrestricted				1,737,824
Other				5,842
Total General Revenues				<u>1,743,666</u>
Change in Net Assets				(56,569)
Net Assets - Beginning of Year				179,315
Net Assets - End of Year				<u>\$ 122,746</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Debt Service	Food Service	Totals (Memorandum Only)
<u>Assets</u>				
Cash	\$ 170,725	\$ -	\$ -	\$ 170,725
Due from other governmental units	330,407	-	2,344	332,751
Due from other funds	12,178	-	-	12,178
Accounts receivable	411	-	-	411
Prepaid expenditures	55,678	-	-	55,678
Total Assets	<u>\$ 569,399</u>	<u>\$ -</u>	<u>\$ 2,344</u>	<u>\$ 571,743</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 10,075	\$ -	\$ -	\$ 10,075
Accrued expenditures	9,123	-	-	9,123
Due to other funds	-	-	12,178	12,178
Due to management company	174,625	-	-	174,625
Total Liabilities	<u>193,823</u>	<u>-</u>	<u>12,178</u>	<u>206,001</u>
Fund Balance				
Unreserved and undesignated	375,576	-	(9,834)	365,742
Total Fund Balance	<u>375,576</u>	<u>-</u>	<u>(9,834)</u>	<u>365,742</u>
Total Liabilities and Fund Balance	<u>\$ 569,399</u>	<u>\$ -</u>	<u>\$ 2,344</u>	<u>\$ 571,743</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 365,742
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	520,728
Accumulated depreciation is	(372,058)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Renovation Loan	(391,666)
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Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ 122,746</u>
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The accompanying notes are an integral part of these financial statements.

HEART Academy
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2006

Revenue	General	Debt Service	Food Service	Totals (Memorandum Only)
Local	\$ 12,402	\$ -	\$ 4,713	\$ 17,115
State	1,817,499	-	57	1,817,556
Federal	141,907	-	15,289	157,196
Total revenue	<u>1,971,808</u>	<u>-</u>	<u>20,059</u>	<u>1,991,867</u>
Expenditures				
Instruction				
Basic programs	632,447	-	-	632,447
Special education	54,186	-	-	54,186
Compensatory	68,991	-	-	68,991
Career and technical	174,257	-	-	174,257
Support Services				
Social work	51,910	-	-	51,910
Improvement of instruction	47,000	-	-	47,000
Education media services	1,055	-	-	1,055
Academic student assessment	5,761	-	-	5,761
General administration	300,492	-	-	300,492
School administration	169,934	-	-	169,934
Other school administration	1,039	-	-	1,039
Fiscal services	7,500	-	-	7,500
Other business services	32,500	-	-	32,500
Operation and maintenance	381,285	-	-	381,285
Security	311	-	-	311
Central	1,175	-	-	1,175
Support services technology	4,937	-	-	4,937
Pupil accounting	542	-	-	542
Debt service	-	55,643	-	55,643
Food service	-	-	26,560	26,560
Total expenditures	<u>1,935,322</u>	<u>55,643</u>	<u>26,560</u>	<u>2,017,525</u>
Excess (Deficit) of Revenues over Expenditures	36,486	(55,643)	(6,501)	(25,658)
Other Financing Sources (Uses)				
Sources	-	55,643	-	55,643
Uses	(55,643)	-	-	(55,643)
Total Other Financing Sources (Uses)	<u>(55,643)</u>	<u>55,643</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	(19,157)	-	(6,501)	(25,658)
Fund Balance, Beginning	394,733	-	(3,333)	391,400
Fund Balance, Ending	<u>\$ 375,576</u>	<u>\$ -</u>	<u>\$ (9,834)</u>	<u>\$ 365,742</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Governmental Funds	\$ (25,658)
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are capitalized
and depreciated over their estimated useful lives.

Depreciation expense	(96,744)
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Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities	65,833
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Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ (56,569)</u>
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The accompanying notes are an integral part of these financial statements.

HEART Academy
Statement of Fiduciary Net Assets
June 30, 2006

Assets	
Cash, student and parent organizations	\$ 13,037
Total Assets	<u>\$ 13,037</u>
Liabilities	
Due to student and parent organizations	\$ 13,037
Total Liabilities	<u>\$ 13,037</u>

The accompanying notes are an integral part of these financial statements.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

HEART Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2007. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2006, was \$50,022.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year there was a deficit in that fund. The General Fund has ample fund balance to cover this deficit.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold Improvements	5 years
Furniture and equipment	5-20 years

Leasehold improvements are depreciated over the life of the lease.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of the amount due at year end to the Academy's oversight agency for oversight fees.

Due to Management Company

Due to Management Company consist of amounts on contracted employees and administrative fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

Inter-fund Activity

Inter-fund activity is reported as transfers and are eliminated upon consolidation.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2006. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$170,725 and the bank balance was \$204,920. Agency fund cash was \$13,037. Of the bank balance, \$100,000 was covered by federal depository insurance and \$104,920 was uninsured and un-collateralized. The Academy has not adopted an investment policy and does not hold any investments.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets subject to depreciation				
Leasehold improvements	\$ 463,031	\$ -	\$ -	\$ 463,031
Equipment and furniture	57,697	-	-	57,697
Total Capital Assets	<u>520,728</u>	<u>-</u>	<u>-</u>	<u>520,728</u>
Accumulated depreciation				
Leasehold improvements	266,243	92,606	-	358,849
Equipment and furniture	9,071	4,138	-	13,209
Total Accumulated Depreciation	<u>275,314</u>	<u>96,744</u>	<u>-</u>	<u>372,058</u>
Total Net Capital Assets	<u>\$ 245,414</u>	<u>\$ (96,744)</u>	<u>\$ -</u>	<u>\$ 148,670</u>

Depreciation was not allocated by function as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a bank loan with an original issue amount of \$500,000, bearing an interest rate of 5.37%. Monthly payments are in the amount of \$2,778 of principal and an additional amount for interest as calculated by the bank. The loan is a general fund obligation and will be paid from general fund revenue transferred to the debt service fund. The note has been amortized over 15 years with a maturity date of March 31, 2008. The Academy is allowed to transfer up to twenty percent of state aid each year to the debt service fund to service the debt. For the year ended June 30, 2006, the transfer from the general fund to the debt service fund did not exceed twenty percent.

Long-term debt also includes a loan from the Academy's sponsor, St. John Health with an original issue amount of \$130,000. The note is interest free and requires quarterly payments.

A summary of long-term debt transactions follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Renovation loan	\$ 424,999	\$ -	\$ 33,333	\$ 391,666	\$ 33,333
St. John Health Note	32,500	-	32,500	-	-
	<u>\$ 457,499</u>	<u>\$ -</u>	<u>\$ 65,833</u>	<u>\$ 391,666</u>	<u>\$ 33,333</u>

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above long-term debt are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 33,333	\$ 22,460	\$ 55,793
2007-08	33,333	20,646	53,979
2008-09	325,000	12,841	337,841
	<u>\$ 391,666</u>	<u>\$ 55,947</u>	<u>\$ 447,613</u>

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Related Party Transactions

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$942,013. The amount due the management company at June 30, 2006 was \$174,625.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue, but not less than \$245,000. The amount expensed for management fees for the year ended June 30, 2006 was \$245,000.

HEART ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy entered into a lease agreement for facilities with an unrelated party under an operating lease for the period August 2003 through June 30, 2007. The amount expensed for lease payments totaled \$326,615. The current monthly rent shall increase each July 1 by the same percentage as the State unrestricted foundation grant allowance amount per pupil increases as calculated by the Michigan Department of Education. In addition, if utility usage increases by more than 5% of the projected budget amount, the Academy is to reimburse the lessor for 30% of the increased amount. This may affect the projected payments listed below. Estimated payments under this operating lease for the fiscal year ending June 30, 2007 are \$326,615.

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10--Inter-Fund Transfers

The makeup of inter-fund transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 55,643	Debt service	\$ 55,643
Total	<u>\$ 55,643</u>	Total	<u>\$ 55,643</u>

The amount transferred from the general fund to the debt service was to cover principal and interest payments.

**REQUIRED
SUPPLEMENTAL INFORMATION**

HEART Academy
Budgetary Comparison
For the Year Ended June 30, 2006

	General Fund				Food Service			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenue								
Local	\$ 10,900	\$ 11,207	\$ 12,402	\$ 1,195	\$ 14,447	\$ 4,700	\$ 4,713	\$ 13
State	1,939,627	1,812,947	1,817,499	4,552	-	-	57	57
Federal	92,511	141,296	141,907	611	11,855	12,250	15,289	3,039
Total Revenues	2,043,038	1,965,450	1,971,808	6,358	26,302	16,950	20,059	3,109
Expenditures								
Instruction								
Basic programs	667,544	624,950	632,447	7,497	-	-	-	-
Special education	61,800	57,556	54,186	(3,370)	-	-	-	-
Compensatory	67,178	74,691	68,991	(5,700)	-	-	-	-
Career and technical	184,124	174,843	174,257	(586)	-	-	-	-
Support Services								
Social work	52,650	51,910	51,910	-	-	-	-	-
Improvement of instruction	6,493	43,212	47,000	3,788	-	-	-	-
Education media services	1,222	1,055	1,055	-	-	-	-	-
Academic student assessment	7,000	5,770	5,761	(9)	-	-	-	-
General administration	307,292	300,706	300,492	(214)	-	-	-	-
School administration	169,039	170,681	169,934	(747)	-	-	-	-
Other school administration	2,000	2,000	1,039	(961)	-	-	-	-
Fiscal services	7,500	7,500	7,500	-	-	-	-	-
Other business services	33,000	32,500	32,500	-	-	-	-	-
Operation and maintenance	386,346	384,490	381,285	(3,195)	-	-	-	-
Security	750	150	311	161	-	-	-	-
Central	-	6,600	1,175	(5,425)	-	-	-	-
Support services technology	4,000	6,000	4,937	(1,063)	-	-	-	-
Pupil accounting	1,000	550	542	(8)	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Food service	-	-	-	-	26,302	23,219	26,560	3,341
Outgoing transfers	58,000	56,400	55,643	(757)	-	-	-	-
Total Expenditures	2,016,938	2,001,554	1,990,965	(10,589)	26,302	23,219	26,560	3,341
Excess (Deficiency) of								
Revenues Over Expenditures	26,100	(36,104)	(19,157)	16,947	-	(6,269)	(6,501)	(232)
Fund Balance - Beginning of Year	394,733	394,733	394,733	-	(3,333)	(3,333)	(3,333)	-
Fund Balance - End of Year	\$ 420,833	\$ 358,629	\$ 375,576	\$ 16,947	\$ (3,333)	\$ (9,602)	\$ (9,834)	\$ (232)

ADDITIONAL SUPPLEMENTAL INFORMATION



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

August 11, 2006

To the Board of Directors
HEART Academy

We have audited the financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2006, which collectively comprise HEART Academy's basic financial statements and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HEART Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

To the Board of Directors
HEART Academy
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HEART Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.



Certified Public Accountants